

JUN 25 2007

FEDERAL ELECTION COMMISSION

999 E Street, N.W.

Washington, D.C. 20463

SENSITIVE

FIRST GENERAL COUNSEL'S REPORT

AUDIT REPORT: 07-01

DATE REFERRED: March 23, 2007

DATE ACTIVATED: May 1, 2007

EXPIRATION OF SOL: April 15, 2009

SOURCE:

AUDIT REFERRAL

RESPONDENTS:

Richard R. Morrison IV

Richard Morrison Congressional Committee and

Michael Gidley, in his official capacity as treasurer

Richard R. Morrison III

RELEVANT STATUTES:

2 U.S.C. § 432(e)(2)

2 U.S.C. § 434(a)(6)(A)

2 U.S.C. §§ 434(b)(1)-(5)

2 U.S.C. § 441a(a)(1)(A)

2 U.S.C. § 441a(f)

INTERNAL REPORTS CHECKED:

Audit Documents

Disclosure Reports

FEDERAL AGENCIES CHECKED:

None

I. BACKGROUND

This matter was generated by a Commission audit pursuant to 2 U.S.C. § 438(b) of the Richard Morrison Congressional Committee ("RMCC") covering the period September 30, 2003 through December 31, 2004. The Commission approved the Final Report of the Audit Division on March 7, 2007 and on March 23, 2007, the Audit Division referred the following Findings to this Office:

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- **Finding 1:** During calendar year 2004, RMCC understated receipts by a net total of \$130,339, and understated disbursements by a net total of \$86,258, resulting in an understated cash balance of \$45,341, in violation of 2 U.S.C. §§ 434(b)(1)-(5) (Attachment 1 at pp. 6-9).¹
- **Finding 2:** Candidate Richard Morrison IV ("Morrison") made two loans to RMCC of \$15,000 each with funds provided by his parents, Richard Morrison III and Sheri Morrison. (A chart prepared by the auditors showing the flow of funds is included as Attachment 2.) As a result, RMCC knowingly accepted an excessive contribution, in violation of 2 U.S.C. § 441a(f)² (Attachment 1 at pp. 6, 9-11).³
- **Finding 5:** RMCC failed to file 48-Hour Notices disclosing thirteen contributions totaling \$31,750, in violation of 2 U.S.C. § 434(a)(6)(A) (Attachment 1 at pp. 6, 15).⁴

With respect to Finding 2, on October 8, 2004, \$100,000 was wired from an investment account of Morrison's parents to an account in the name of his father and aunt. On October 13, 2004, these funds were wired from this account to a business account of Morrison's. On October 29, 2004 and November 1, 2004, withdrawals of \$15,000 each were made from Morrison's business account and deposited in the RMCC's account. On November 16, 2004, RMCC repaid Morrison \$30,000 and on November 18, 2004, he transferred \$100,000 to his father.

¹ 2 U.S.C. §§ 434(b)(1)-(5) require that a political committee accurately: report its cash on hand; report contributions, loans, and transfers received; identify the persons and other entities involved in those transactions; report disbursements, loan repayments and transfers made; and identify the persons and other entities involved in those transactions.

² Morrison's mother had made a \$2,000 contribution to RMCC for the general election but his father had not; therefore, the audit report essentially "credits" Morrison's father with \$2,000 of the \$30,000 at issue, with \$28,000 remaining as the amount in violation.

³ The RMCC's failure to report the second \$15,000 contribution that ostensibly came from the candidate, as well as the failure to report the subsequent \$30,000 disbursement to him are included in the understatements of receipts and disbursements that form the basis of Finding 1, *supra*.

⁴ These contributions include the unreported \$15,000 October 29, 2004 loan, *see* footnote 3, *supra*.

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1 RMCC first claimed that the loans were gifts from Mr. and Mrs. Morrison to the
2 candidate and were therefore his personal funds. Alternatively, RMCC claimed that the
3 \$30,000 received by Morrison represented a short-term, interest-bearing loan from his father.
4 Although the Audit Division requested documents supporting the claim that the funds at issue
5 were Morrison's personal funds, RMCC declined to provide documentation sufficient to
6 support this claim. See Attachment 1 at p. 11.

7 Based on the Final Audit Report, which is also the Factual and Legal Analysis for
8 RMCC, see Attachment 1, and the analysis in the attached Factual and Legal Analyses for
9 Morrison and his father, see Attachments 3 and 4, we recommend that that the Commission
10 find reason to believe that Richard Morrison Congressional Committee and Michael Gidley,
11 in his official capacity as treasurer, violated 2 U.S.C. §§ 434(b)(1)-(5) by understating its
12 receipts, disbursements, and cash balances during calendar year 2004, 2 U.S.C.
13 § 434(a)(6)(A) by failing to file 48-Hour Notices disclosing contributions totaling \$31,750,
14 2 U.S.C. § 441a(f) by knowingly accepting an excessive contribution, and 2 U.S.C. § 434(b)
15 for failing to report the excessive contribution and subsequent loan repayment.

16 In addition, because the candidate was an agent of RMCC who accepted the funds on
17 its behalf, see 2 U.S.C. § 432(e)(2), we recommend that the Commission find reason to
18 believe that Richard R. Morrison IV violated 2 U.S.C. § 441a(f) by knowingly accepting an
19 excessive contribution. Finally, we recommend that the Commission find reason to believe
20 that Richard R. Morrison III, Morrison's father, violated 2 U.S.C. § 441a(a)(1)(A) by making

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an excessive contribution.⁵

III. RECOMMENDATIONS

1. Open a MUR in AR 07-01.
2. Find reason to believe that Richard Morrison Congressional Committee and Michael Gidley, in his official capacity as treasurer, violated 2 U.S.C. §§ 434(a)(6)(A), 434(b)(1)-(5), and 441a(f).
3. Find reason to believe that Richard R. Morrison IV violated 2 U.S.C. § 441a(f).
4. Find reason to believe that Richard R. Morrison III violated 2 U.S.C. § 441a(a)(1)(A).
5. Approve as the Factual and Legal Analysis for Richard Morrison Congressional Committee and Michael Gidley, in his official capacity as treasurer, the Report of the Audit Division dated March 22, 2007.
6. Approve the Factual and Legal Analyses for Richard R. Morrison IV and Richard R. Morrison III.
7. _____

⁵ We have not made reason-to-believe recommendations as to Sheri Morrison because it appears that she is deceased. In April 2005, Morrison sent a message to supporters stating that he would not run for Congress in 2006, due in part to his mother's having been diagnosed with pancreatic cancer, and, in February 2006, death notices appeared for "Sheri Morrison" in Texas publications. We do not recommend knowing and willful findings at this time because we do not have information indicating a purposeful intent to violate the law.

8. Approve the appropriate letters.

Thomasenia P. Duncan
General Counsel

Date: 6/25/07

BY: 
Ann Marie Terzaken
Acting Associate General Counsel


Susan L. Lebeaux
Assistant General Counsel


Ruth I. Heilizer
Attorney

Attachments

1. Report of the Audit Division on Richard Morrison Congressional Committee dated March 22, 2007
2. Audit-prepared Chart showing flow of Funds



FEDERAL ELECTION COMMISSION
Washington, DC 20463

March 22, 2007

MEMORANDUM

To: Robert W. Biersack
Press Officer

Through: Margarita Maisonet
Chief Compliance Officer

From: Joseph F. Stoltz *JFS*
Assistant Staff Director
Audit Division

Subject: Public Issuance of the Audit Report on Richard Morrison Congressional Committee

Attached please find a copy of the audit report and related documents on Richard Morrison Congressional Committee, which was approved by the Commission on March 7, 2007.

The report may be released to the public on March 22, 2007.

Attachment as stated

cc: Office of General Counsel
Office of Public Disclosure
Reports Analysis Division
✓ FEC Library
DSDD Website

ATTACHMENT 1
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Report of the Audit Division on the Richard Morrison Congressional Committee

September 30, 2003 – December 31, 2004

Why the Audit Was Done

Federal law permits the Commission to conduct audits and field investigations of any political committee that is required to file reports under the Federal Election Campaign Act (the Act). The Commission generally conducts such audits when a committee appears not to have met the threshold requirements for substantial compliance with the Act.¹ The audit determines whether the committee complied with the limitations, prohibitions and disclosure requirements of the Act.

Future Action

The Commission may initiate an enforcement action, at a later time, with respect to any of the matters discussed in this report.

About the Campaign (p. 2)

Richard Morrison Congressional Committee (RMCC) is the principal campaign committee for Richard Roberts Morrison IV, Democratic candidate for the U.S. House of Representatives from the state of Texas, 22nd district. RMCC maintains its headquarters in Kernah, Texas. For more information, see the chart on the Campaign Organization, p.2.

Financial Activity (p. 2)

- **Receipts**
 - Contributions from Individuals \$ 690,524
 - Contributions from Other Political Committees 37,433
 - Candidate Loans 30,000
 - Offsets to Operating Expenditures 3,785
 - Other Receipts 9,266
 - **Total Receipts** \$ 771,008
- **Disbursements**
 - Operating Expenditures \$ 740,056
 - Repayment of Candidate Loans 30,000
 - **Total Disbursements** \$ 770,056

Findings and Recommendations (p. 3)

- Misstatement of Financial Activity (Finding 1)
- Receipt of Loans that Exceed Limits (Finding 2)
- Disclosure of Disbursements (Finding 3)
- Disclosure of Contributions (Finding 4)
- Failure to File 48-Hour Notices (Finding 5)

¹ 2 U.S.C. §438(b).

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Part I

Background

Authority for Audit

This report is based on an audit of the Richard Morrison Congressional Committee (RMCC), undertaken by the Audit Division of the Federal Election Commission (the Commission) in accordance with the Federal Election Campaign Act of 1971, as amended (the Act). The Audit Division conducted the audit pursuant to 2 U.S.C. §438(b), which permits the Commission to conduct audits and field investigations of any political committee that is required to file a report under 2 U.S.C. §434. Prior to conducting any audit under this subsection, the Commission must perform an internal review of reports filed by selected committees to determine if the reports filed by a particular committee meet the threshold requirements for substantial compliance with the Act. 2 U.S.C. §438(b).

Scope of Audit

This audit examined:

1. The receipt of excessive contributions and loans.
2. The receipt of contributions from prohibited sources.
3. The disclosure of contributions received.
4. The disclosure of disbursements, debts and obligations.
5. The consistency between reported figures and bank records.
6. The completeness of records.
7. Other committee operations necessary to the review.

Limitations

Although RMCC complied with the recordkeeping requirements for disbursements, invoices or receipts from the original vendor were not available for 55% of all disbursements.² Without third party documentation for these disbursements, the Audit staff was unable to verify the following:

- prohibited contributions resulting from the application of 11 CFR §116.3 – extensions of credit by commercial vendors;
- excessive contributions resulting from the application of 11 CFR §116.5 – advances by committee staff and other individuals;
- personal use of funds in a campaign account – 11 CFR §113.1(g);
- reporting of debts and obligations – 2 U.S.C. §434(b); and
- disclosure of memo entries required for reimbursements to individuals – 2 U.S.C. §434(b).

² Records for disbursements in excess of \$200 must include a receipt or invoice from the payee, or a cancelled check or share draft to the payee. 11 CFR §102.9(b)(2).

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Part II

Overview of Campaign

Campaign Organization

Important Dates	RMCC
• Date of Registration	November 24, 2003
• Audit Coverage	September 30, 2003 – December 31, 2004
Headquarters	Kemah, Texas
Bank Information	
• Bank Depository	1
• Bank Account	1 Checking Account
Treasurer	
• Treasurer When Audit Was Conducted	Michael Gidley
• Treasurer During Period Covered by Audit	Michael Gidley
Management Information	
• Attended FEC Campaign Finance Seminar	No
• Used Commonly Available Campaign Management Software Package	Yes
• Who Handled Accounting and Recordkeeping Tasks	Volunteer campaign staff

Overview of Financial Activity (Audited Amounts)

Cash on hand @ September 30, 2003	\$ 0
o Contributions from Individuals	690,524
o Contributions from other Political Committees	37,433
o Candidate Loans	30,000
o Offsets to Operating Expenditures	3,785
o Other Receipts	9,266
Total Receipts	\$ 771,008
o Operating Expenditures	740,056
o Repayment of Candidate Loans	30,000
Total Disbursements	\$ 770,056
Cash on hand @ December 31, 2004	\$ 952

ATTACHMENT

to Exhibit 13

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Part III Summaries

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

A comparison of RMCC's reported financial activity to bank records revealed a misstatement of cash on hand, receipts, and disbursements in 2004. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports that corrected the misstatements. (For more detail, see p. 4)

Finding 2. Receipt of Loans that Exceed Limits

The Candidate made two loans to RMCC totaling \$30,000 with funds provided by his parents. As a result, the Candidate's parents made excessive contributions to RMCC totaling \$28,000. The Audit staff recommended that RMCC provide documentation demonstrating that the loans were not made with funds from the Candidate's parents. Absent such evidence, it was recommended RMCC amend its reports to correctly disclose the source of these loans. In response, RMCC maintained the funds loaned to RMCC were the Candidate's personal funds. (For more detail, see p. 6)

Finding 3. Disclosure of Disbursements

Results of a sample review of operating expenditures itemized on Schedules B indicated that RMCC did not provide adequate disclosure information, such as purpose, for 61% of the items reviewed. Similarly, a review of reimbursements made to the Candidate and campaign manager resulted in the identification of disbursements totaling \$331,265 reported with incorrect disclosure information or an unacceptable purpose. In addition, the Audit staff's review of reimbursements to individuals identified expenses totaling \$50,832 that should have been itemized on Schedules B as memo entries disclosing the names of the original vendors. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information. (For more detail, see p. 9)

Finding 4. Disclosure of Contributions

Results of a sample review of contributions received from individuals indicated that RMCC did not accurately disclose the election cycle to date total for 14% of the contributions reviewed. In addition, RMCC did not properly disclose the receipt of earmarked contributions totaling \$28,406. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information. (For more detail, see p. 10)

Finding 5. Failure to File 48-Hour Notices

The Audit staff identified 13 contributions totaling \$31,750 for which RMCC did not file 48-hour notices. In response to the Interim Audit Report, RMCC acknowledged that it may have failed to completely report all the 48-hour notices. (For more detail, see p. 12)

Part IV

Findings and Recommendations

Finding 1. Misstatement of Financial Activity

Summary

A comparison of RMCC's reported financial activity to bank records revealed a misstatement of cash on hand, receipts, and disbursements in 2004. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports that corrected the misstatements.

Legal Standard

Contents of Reports. Each report must disclose:

- The amount of cash on hand at the beginning and end of the reporting period;
- The total amount of receipts for the reporting period and for the election cycle; and
- The total amount of disbursements for the reporting period and for the election cycle
- Certain transactions that require itemization on Schedule A or Schedule B. 2 U.S.C. §434(b)(1), (2), (3), (4), and (5).

Facts and Analysis

The Audit staff reconciled the reported activity to the bank records and determined there was a misstatement of ending cash on hand, receipts, and disbursements in 2004. The following charts detail the discrepancies between the totals on RMCC's disclosure reports and bank records for 2004.

2004 Activity			
	Reported ³	Bank Records	Discrepancy
Opening Cash Balance	\$9,130	\$9,130	\$0
Receipts	\$614,480	\$744,819	\$130,339 Understated
Disbursements	\$666,739	\$752,997	\$86,258 Understated
Ending Cash Balance	\$-44,289 ⁴	\$952	\$-45,241 Understated

³ Based on reported activity as of audit notification on April 25, 2005.

⁴ This figure does not foot due to a discrepancy of \$1,160 between the ending cash balance on the Post General Election Report and the beginning cash balance on the Year End Report.

Receipts - 2004

The understatement of receipts was the net result of the following:

• Receipts Not Reported	
a. Contributions from individuals	+ \$ 89,790
b. Loan from Candidate (see Finding 2)	+ 15,000
c. Contributions from political committees	+ 8,760
d. Earmarked contributions (net)	+ 4,194
e. Offsets to operating expenditures	+ 3,785
f. In-kind contributions	+ 1,094
• Unexplained difference	+ 7,716
Net Understatement	<u>\$ 130,339</u>

Disbursements - 2004

The understatement of disbursements was the net result of the following:

• Disbursements Not Reported	
a. Repayment of Candidate loan (see Finding 2)	+ \$ 30,000
b. Operating expenditures	+ 13,305
c. Consulting services	+ 13,100
d. Phone bank expenses	+ 10,300
e. Media expenses	+ 7,262
f. Bank charges	+ 6,916
g. Reimbursements	+ 4,332
h. Fundraising expenses	+ 2,653
i. Purchase of campaign materials	+ 2,618
j. In-kind contributions	+ 1,094
k. Contributions to political committees	+ 1,050
• Disbursements Over Reported	
a. Disbursements reported twice	- 4,750
b. Disbursements reported with wrong amounts (net)	- 1,228
c. Disbursements reported and later voided with no adjustment	- 500
• Unexplained difference	+ 105
Net Understatement	<u>\$ 86,258</u>

Ending Cash Balance - 2004

The reporting discrepancies identified above also resulted in the misstatement of the reported cash balance throughout 2004. On December 31, 2004, the cash balance was understated by \$45,241.

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During audit fieldwork, the Audit staff informed the Candidate of the misstated activity noted above. In response, the Candidate stated problems with its campaign software may have caused some of the reporting errors. At the exit conference, the Audit staff provided the Candidate with a schedule of the reporting discrepancies. The Candidate indicated that amended reports would be filed to correct the misstatements.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that RMCC amend its reports to correct the misstatements noted above. It was also recommended that RMCC amend its most recently filed report to correct the cash on hand balance and include a notation that the change is due to audit adjustments in 2004. In response, RMCC filed amended reports that corrected the misstatements.

Finding 2. Receipt of Loans that Exceed Limits

Summary

The Candidate made two loans to RMCC totaling \$30,000 with funds provided by his parents. As a result, the Candidate's parents made excessive contributions to RMCC totaling \$28,000. The Audit staff recommended that RMCC provide documentation demonstrating that the loans were not made with funds from the Candidate's parents. Absent such evidence, it was recommended RMCC amend its reports to correctly disclose the source of these loans. In response, RMCC maintained the funds loaned to RMCC were the Candidate's personal funds.

Legal Standard

A. Authorized Committee Limits. An authorized committee may not receive more than a total of \$2,000 per election from any one person or \$5,000 per election from a multicandidate political committee. 2 U.S.C. §441a(a)(1)(A), (2)(A) and (f); 11 CFR §§110.1(a) and (b) and 110.9(a).

B. Contribution Defined. A gift, subscription, loan (except when made in accordance with 11 CFR §§100.72 and 100.73), advance, or deposit of money or anything of value made by any person for the purpose of influencing any election for Federal office is a contribution. The term *loan* includes a guarantee, endorsement, and any other form of security. A loan is a contribution at the time it is made and is a contribution to the extent that it remains unpaid. The aggregate amount loaned to a candidate or committee by a contributor, when added to other contributions from that individual to that candidate or committee, shall not exceed the contribution limitations set forth at 11 CFR part 110. A loan, to the extent it is repaid, is no longer a contribution. 11 CFR §100.52(a).

C. Expenditures by Candidates. Candidates for Federal office may make unlimited expenditures from personal funds. 11 CFR §110.10(a)

D. Definition of Personal Funds. *Personal funds of the candidate* means the sum of all of the following:

(a) **Assets.** Amounts derived from any asset that, under applicable State law, at the time the individual became a candidate, the candidate had legal right of access to or control over, and with respect to which the candidate had legal and rightful title or an equitable interest;

(b) **Income.** Income received during the current election cycle, as defined in 11 CFR §400.2, of the candidate, including:

- (1) A salary and other earned income that the candidate earns from bona fide employment;
- (2) Income from the candidate's stocks or other investments;
- (3) Bequests to the candidate;
- (4) Income from trusts established before the beginning of the election cycle as defined in 11 CFR §400.2;
- (5) Income from trusts established by bequest after the beginning of the election cycle of which the candidate is the beneficiary;
- (6) Gifts of a personal nature that had been customarily received by the candidate prior to the beginning of the election cycle, as defined in 11 CFR §400.2; and
- (7) Proceeds from lotteries and similar legal games of chance. 11 CFR §100.33

E. Contents of Reports. Each report must disclose for the reporting period and for the election cycle, the total amount of loans made by or guaranteed by the candidate and the identification of each person who makes, endorses or guarantees a loan to the committee. 2 U.S.C. §434(b)(2)(G) and (3)(E).

Facts and Analysis

The Candidate made two loans to RMCC totaling \$30,000 with funds provided by his parents. As a result, the Candidate's parents made excessive contributions to RMCC totaling \$28,000.⁵

On October 8, 2004, \$100,000 was wired from an investment account of the Candidate's parents to an account in the name of the Candidate's father and aunt. On October 13, 2004, these funds were wired from this account to a business account of the Candidate. On October 29, 2004 and November 1, 2004, withdrawals of \$15,000 were made from the Candidate's business account and deposited in the RMCC account. On November 16, 2004, RMCC repaid the Candidate \$30,000 and on November 18, 2004 the Candidate repaid his father \$100,000. For these transactions, RMCC reported only a loan from the Candidate of \$15,000 and did not report the repayments to the Candidate (see Finding 1). It was also determined that a portion of the \$30,000 loaned by the Candidate was used to correct a shortfall in the RMCC account during a brief period prior to the general election.

⁵ The excessive contribution amount equals the amount of the contribution (\$30,000) less the total available limit for each parent towards the general election (\$2,000). At the time the loan was made to RMCC, the Candidate's mother had contributed \$2,000 for the general election and the Candidate's father had not made a contribution for the general election.

The Candidate maintains that the funds loaned to RMCC were his personal funds.⁶ However, it appears the funds in the Candidate's business account were necessary to pay other obligations of the business and, therefore, were not available to be loaned to RMCC. In fact, without the funds from the Candidate's parents, the Candidate's business account would have been overdrawn when the second \$15,000 loan was made to RMCC. Furthermore, the Candidate's business account was overdrawn shortly after the Candidate's father was repaid which indicates the funds in this account were committed for other expenses.

At the exit conference, the Audit staff provided the Candidate with its calculation of excessive contribution amounts resulting from the loans and explained the reporting discrepancies.

Interim Audit Report Recommendation and Committee Response

The Interim Audit Report concluded that based on an analysis of the bank account records provided by RMCC, the Candidate appears not to have had sufficient unobligated funds to make the \$30,000 loan to RMCC and, therefore, the funds received from his parents appear to be the source of the loan. It was recommended that should RMCC wish to challenge this conclusion, it should submit documentation to show that the Candidate did have sufficient unobligated funds. Such evidence was to include:

- Records to establish that the Candidate had sufficient personal funds, excluding the funds received from his parents, to make the loan to RMCC while still satisfying his non-campaign obligations. Such information could include records from the Candidate's business which could establish what, if any, types of business expenses were paid from other accounts and other available personal or business funds; and,
- Records that demonstrate the Candidate's legal right of access to or control over funds in the business account(s).

Absent such evidence, it was recommended that RMCC amend its reports (Schedules C) to correctly disclose the source of funds for these loans.

In response, RMCC maintained that the funds loaned to RMCC were the Candidate's personal funds and was composed of the \$19,602 from the Candidate's business account and \$10,398 from a business loan to the Candidate from his father. RMCC stated that the Candidate's father had previously made loans to his son and that this loan was an interest bearing short term loan for the purpose of paying business expenses pending the receipt of outstanding accounts receivable. No documentation in support of any of these statements was submitted, nor was any information provided about other available personal funds or the Candidate's legal right of access to funds in the business account.

⁶ Prior to the deposit of funds from the parents, the Candidate's business account had a balance of \$19,602.

Finding 3. Disclosure of Disbursements

Summary

Results of a sample review of operating expenditures itemized on Schedules B indicated that RMCC did not provide adequate disclosure information, such as purpose, for 61% of the items reviewed. Similarly, a review of reimbursements made to the Candidate and campaign manager resulted in the identification of disbursements totaling \$331,265 reported with incorrect disclosure information or an unacceptable purpose. In addition, the Audit staff's review of reimbursements to individuals identified expenses totaling \$50,832 that should have been itemized on Schedules B as memo entries disclosing the names of the original vendors. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information.

Legal Standard

A. Reporting Operating Expenditures. When operating expenditures to the same person exceed \$200 in an election cycle, the committee must report the:

- Amount;
- Date when the expenditures were made;
- Name and address of the payee⁷; and
- Purpose (a brief description of why the disbursement was made—see below). 11 CFR §104.3(b)(4)(i).

B. Examples of Purpose.

- **Adequate Descriptions.** Examples of adequate descriptions of "purpose" include the following: dinner expenses, media, salary, polling, travel, party fees, phone banks, travel expenses, travel expense reimbursement, catering costs, loan repayment, or contribution refund. 11 CFR §104.3(b)(4)(i)(A).
- **Inadequate Descriptions.** The following descriptions do not meet the requirement for reporting "purpose": advance, Election Day expenses, other expenses, expense reimbursement, miscellaneous, outside services, get-out-the-vote, and voter registration. 11 CFR §104.3(b)(4)(i)(A).

Facts and Analysis

A sample review of operating expenditures resulted in a 61% error rate for disclosure information. The errors consisted mostly of reporting no purposes or an unacceptable purpose (such as consultant or campaign consultant) on Schedules B. Similarly, a review of media expenditures and reimbursements to the candidate and campaign manager resulted in the identification of disbursements totaling \$331,265 with inadequate disclosure information. In most cases, the reporting of these disbursements also lacked a purpose or an acceptable purpose. In each review, it was determined that a person not associated with RMCC would not easily discern why the disbursement was made when reading the name of the recipient and the purpose on Schedules B.

⁷ Payee means the person who provides the goods or services to the committee.
11 CFR §102.9(b)(2)(i)(A)

As part of the review of reimbursements to individuals, the Audit staff also identified expenses totaling \$50,832 that should have been itemized on Schedules B as memo entries disclosing the names of the original vendors. As stated earlier, the scope of this review was limited due to the lack of available receipts or invoices from the original vendors to document the reimbursement. (See Limitations on page 1.)

The Audit staff discussed the matter with the Candidate at the exit conference and he stated that amended Schedules B would be filed to adequately disclose the purpose of the disbursements and to include the required memo entries for reimbursements.

Interim Audit Report Recommendation and Committee Response
In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information.

Finding 4. Disclosure of Contributions

Summary

Results of a sample review of contributions received from individuals indicated that RMCC did not accurately disclose the election cycle to date total for 14% of the contributions reviewed. In addition, RMCC did not properly disclose the receipt of earmarked contributions totaling \$28,406. In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information.

Legal Standard

A. Itemization Required for Contributions from Individuals. An authorized candidate committee must itemize any contribution from an individual if it exceeds \$200 per election cycle, either by itself or when combined with other contributions from the same contributor. 2 U.S.C. §434(b)(3)(A).

B. Election Cycle. The election cycle begins on the first day following the date of the previous general election and ends on the date of the next general election. 11 CFR §100.3(b).

C. Required Information for Contributions from Individuals. For each itemized contribution from an individual, the committee must provide the following information:

- The contributor's full name and address (including zip code);
- The contributor's occupation and the name of his or her employer;
- The date of receipt (the date the committee received the contribution);
- The amount of the contribution; and
- The election cycle-to-date total of all contributions from the same individual. 11 CFR §§100.12 and 104.3(a)(4) and 2 U.S.C. §434(b)(3)(A).

D. Definition of a Conduit. Any person who receives and forwards an earmarked contribution to a candidate or candidate's authorized committee. 11 CFR §110.6(b)(2).

E. Definition of an earmarked contribution. A contribution that the contributor directs (either orally or in writing) to a clearly identified candidate or authorized committee through an intermediary or conduit. 11 CFR §110.6(b)(1).

F. Required Information for Contributions from Individuals Received From a Conduit. For each itemized contribution from an individual forwarded by a conduit, the recipient committee must report the following information:

- The contributor's full name and address (including zip code);
 - The contributor's occupation and the name of his or her employer;
 - The date of receipt (the date the conduit received the contribution);
 - The amount of the contribution;
 - The election cycle-to-date total of all contributions from the same individual;
 - The full name and address of the conduit; and
 - The date and total amount of earmarked contributions received from the conduit
- 11 CFR §§100.12, 104.3(a)(4), 110.6(c) and 2 U.S.C. §434(b)(3)(A).

Facts and Analysis

Results from a sample review of contributions received from individuals indicated that RMCC did not accurately disclose the election cycle to date total for 14% of the contributions reviewed. These errors may have occurred because RMCC did not enter every contribution into its campaign finance software (FECfile). Instead, contributions of small denominations were often grouped together and itemized on Schedules A (Itemized Receipts) as "Small Internet Donations" or "Some Small Anonymous." During the audit period, receipts itemized in this manner totaled \$173,177. Also, according to the Candidate, RMCC did not maintain a central database of all contributions. Instead, RMCC maintained a database of credit card contributions and separate database for contributions made by check. For these reasons, RMCC did not accurately calculate or disclose the election cycle to date total for many contributors.

The Audit staff also determined that earmarked contributions from individuals totaling \$28,406 received via a political committee (ACTBLUE) were not properly disclosed on Schedules A. During the audit period, RMCC received \$29,652 in transfers from ACTBLUE for earmarked contributions from individuals.⁴ Although RMCC included these earmarked contributions in reported figures for Line 11a (Unitemized Contributions from Individuals), RMCC did not disclose the name of the conduit, or the date and amount of the conduit's transfers as memo entries.

At the exit conference, RMCC was informed of the inaccurate election cycle to date totals and incorrect disclosure of earmarked contributions. The Candidate stated that amended reports would be filed to correct Schedules A.

⁴ This amount does not include \$6,025 in checks issued by ACTBLUE to replace checks originally lost by RMCC. It was later determined that both the original and replacement checks were deposited by RMCC. Since these transfers represent earmarked contributions from individuals, the Audit staff determined that contribution limits were not exceeded by ACTBLUE; however, because the amount has not been repaid by RMCC it should be disclosed as an outstanding debt on Schedules D.

Interim Audit Report Recommendation and Committee Response
In response to a recommendation in the Interim Audit Report, RMCC filed amended reports correctly disclosing the required information.

Finding 5. Failure to File 48-Hour Notices

Summary

The Audit staff identified 13 contributions totaling \$31,750 for which RMCC did not file 48-hour notices. In response to the Interim Audit Report, RMCC acknowledged that it may have failed to completely report all the 48-hour notices. .

Legal Standard

Last-Minute Contributions (48-Hour Notices). Campaign committees must file special notices regarding contributions of \$1,000 or more received less than 20 days but not more than 48 hours before any election in which the candidate is running. This rule applies to all types of contributions to any authorized committee of the candidate, including:

- Contributions from the candidate;
- Loans from the candidate and other non-bank sources; and
- Endorsements or guarantees of loans from the banks. 11 CFR §104.5(f).

Facts and Analysis

The Audit staff reviewed those contributions of \$1,000 or more that were received during the 48-hour notice filing period for the primary and general elections. RMCC failed to file 48-hours notices for 13 contributions totaling \$31,750. These contributions are summarized below.

Contribution Type	Primary	General	Total
Loan from the Candidate ⁹		\$15,000	\$15,000
Contributions from Individuals	\$5,750	\$10,000	\$15,750
Contributions from Political Committees		\$ 1,000	\$ 1,000
Total 48-Hour Notices not filed	\$5,750	\$26,000	\$31,750

At the exit conference, the Audit staff informed the Candidate of the failure to file 48-hour notices. The Candidate provided no explanation for not filing these notices.

Interim Audit Report Recommendation and Committee Response

The Audit staff recommended that RMCC provide evidence that 48-hour notices were filed timely for those contributions mentioned above or provide any comments it has regarding this matter. In response, RMCC acknowledged that it may have failed to completely report all the 48-hour notices and noted that approximately half of the amount without 48-hour notices was attributable to a loan from the candidate. RMCC stated the Commission's regulations requiring the filing of 48-hour notices for such loans are unclear.

⁹ This loan from the Candidate is also included in Finding 1 and Finding 2.

1-Source of Loan Flowchart

